



California Public Employees' Retirement System
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Agenda Item 5a

April 12, 2011

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. **SUBJECT:** External Review of Experience Study
- II. **PROGRAM:** Retirement Program
- III. **RECOMMENDATION:** Information Only
- IV. **ANALYSIS:**

In April 2010, the Actuarial Office presented the CalPERS Experience Study (Study) for fiscal years 1997 through 2007. An experience study is a summarization of actual experience over a defined period of time and is used as a guide in setting future actuarial assumptions. This study focused on recent patterns of termination, death, disability, retirement and salary increases. It presents the results of the (demographic) experience study on the California Public Employees Retirement System using data from 1997 to 2007.

EFI performed a peer review, a broad professional overview not an audit, of the Study. EFI determined that the Study was performed in accordance with generally accepted actuarial principles. EFI found a few inconsistencies that they did not believe would have a material impact on the actuarial cost of the plans. However, these inconsistencies led them to recommend a full audit of the Study.

Based on EFI's recommendation, the Board directed staff to engage an external firm to perform a full audit of the Study. Instead of issuing the lengthy RFP process, we solicited bids from firms (other than EFI) in our Actuarial Pool. We received bids from GRS and Buck Consultants. GRS's bid, significantly less than Buck's bid, was selected due to budgetary constraints and the economic environment.

GRS recently completed their independent actuarial audit of the Study (see Attachment 1). GRS's conclusion was "we believe the assumptions adopted by the Board are reasonable and, compared to the prior assumptions, provide a more accurate representation of the System's liabilities and costs." They also stated that "the current assumptions developed as a result of those processes

are reasonable, comply with actuarial standards of practice and the use of such assumptions complies with Governmental Accounting Standards Board Statements 25 and 27.

GRS identified some processes and methods for the Actuarial Office to consider during the next assumption review. They include:

- Consider incorporating an additional margin in the mortality assumption.
- Ensure that the calculation of the exposures, decrements, and rates are applied consistently for all assumptions, and are consistent with the method used by the actuarial software
- Investigate the potential benefits of utilizing alternative weighted approaches in the assumption setting process, for example, weighting by liability, salary level, or benefit level
- Perform at least a limited review of the minor demographic assumptions such as the percentage of members who are expected to be married at retirement, the age difference of the spouse, and the credit for unused sick leave

Staff will address these items at the time of the next experience study.

GRS also identified some processes and methods unrelated to the next assumption review. They include:

- Consider modifying the timing for determining the member's benefit eligibility in the valuation system from the beginning to the middle of year
- Revisit the merit and promotional salary scale when performing the economic assumption review to ensure the assumption is appropriate when combined with the economic assumption

Staff will address these items outside of the next experience study. GRS's conclusions were similar to those in the peer review performed by EFI. In both reviews, there were no significant findings. A copy of the report is included in Attachment 1.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

This audit will not result in any changes to future employer contribution rates since GRS did not recommend any changes to the actuarial assumptions. The cost of the study was \$120,000.

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Attachment